CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE: October 2, 2017**

FROM: Matthew Bronson, City Manager

PREPARED BY: Gayla R. Chapman, Administrative Services Director

SUBJECT: City of Grover Beach Debt Management Policy

RECOMMENDATION

Adopt the Resolution to establish the City of Grover Beach Debt Management Policy.

BACKGROUND

Government Code section 8855(i) requires any issuer of public debt to provide a report of the proposed issuance to the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue. Effective January 1, 2017, issuers must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies. The issuer's local debt policies must include (1) through (5) as outlined below:

1. The purposes for which the debt proceeds may be used.
2. The types of debt that may be issued.
3. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
4. Policy goals related to the issuer's planning goals and objectives.
5. The internal control procedures that the issuer has implements, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

In addition to the requirement set forth by Government Code section 8855(i), it is prudent financial management for the City to adopt a Debt Management Policy that sets parameters for issuing debt, managing the City's debt portfolio and provides guidance to decision makers. Adoption of a Debt Management Policy will help ensure that City debt is issued and managed prudently to maintain a sound fiscal position and that its credit ratings are protected. The attached Debt Management Policy (Attachment 1) has been written in consultation with the City's Financial Advisor to include all elements required by CDIAC as well as best management practices expected by the pertinent credit markets and municipal bond industry. This policy will assist the City in pursuing and maintaining quality credit ratings in addition to providing guidance to decision makers.

Approval of the Debt Management Policy by the City Council will allow the City to be in compliance with the requirements of Government Code section 8855(i) prior to issuing the next series of General Obligation Bonds for Measure K-14 street repair work.

FISCAL IMPACT

None

ALTERNATIVES

The City Council has the following alternatives to consider:

1. Adopt the Resolution to establish the City of Grover Beach Debt Management Policy; or

2. Do not adopt the Resolution establishing a Debt Management Policy for the City of Grover Beach and provide direction to staff.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

ATTACHMENTS

1. Resolution and Exhibit A – Debt Management Policy

Attachment 1

RESOLUTION NO. ____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GROVER BEACH APPROVING THE CITY OF GROVER BEACH DEBT MANAGEMENT POLICY

WHEREAS, the City Council (the "Council") of the City of Grover Beach (the "City") recognizes that cost-effective access to the capital markets depends on prudent management of the City's debt program; and

WHEREAS, Government Code section 8855(i) requires any issuer of public debt to provide to California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue a report of the proposed issuance (the "Report of Proposed Debt Issuance"), and must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies (the "CDIAC Requirements"); and

WHEREAS, the City Council wishes to set parameters for issuing debt, managing the debt portfolio and providing guidance to decision makers; and

WHEREAS, the City Council finds and determines that adoption of the attached Debt Management Policy (the "Debt Management Policy") will help ensure that debt is issued and managed prudently in order to maintain sound fiscal policy, and is in compliance with the CDIAC Requirements.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Grover Beach hereby orders and determines as follows:

Section 1. Recitals. The Council hereby specifically finds and declares that each of the recitals set forth above are true and correct and are hereby incorporated in conjunction with the respective staff report.

Section 2. Approval of the Debt Management Policy. This Council hereby declares that the proposed Debt Management Policy attached hereto as "Exhibit A", is hereby approved as the City of Grover Beach Debt Management Policy to be effective October 3, 2017.

Section 3. Authorization to Manage Debt Issuance Functions. The City Manager and Finance Director, or a designee of either, is hereby authorized to manage debt issuance functions for the City of Grover Beach in accordance with the Debt Management Policy.

Section 4. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

On motion by Council Member ________, seconded by Council Member _______, and on the following roll-call vote, to wit:

AYES: Council Members –
NOES: Council Members –
ABSENT: Council Members –
ABSTAIN: Council Members –

the forgoing Resolution was **PASSED**, **APPROVED**, and **ADOPTED** at a regular meeting of the City Council of the City of Grover Beach, California this 2nd day of October, 2017.

**** D R A F T ****

JOHN P. SHOALS, MAYOR

ATTEST

DONNA L. McMAHON, CITY CLERK

CITY OF GROVER BEACH

DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the City of Grover Beach (the "City") was approved by the City Council on [____________], 2017. The Debt Policy may be amended by City Council as it deems appropriate from time to time in the prudent management of the debt of the City. This Debt Policy will also apply to any debt issued by the City of Grover Beach Financing Authority and the Successor Agency to the Grover Beach Improvement Agency, as applicable.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the City or its related entities and is intended to comply with Government Code Section 8855, effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the City's effort to allocate limited resources to provide the highest quality of service to the public. The City understands that poor debt management can have ripple effects that hurt other areas of the City. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the City for its residents and businesses.

1. FINDINGS

Unless waived by the City, this Debt Policy shall govern all debt undertaken by the City. The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City's sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit-worthiness.
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

2. POLICIES

A. Purposes For Which Debt May Be Issued

The City will consider the use of debt financing for capital improvement projects ("CIP") primarily when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this sections focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below.

If a department has any project which is expected to use debt financing, the department director is responsible for expeditiously providing the City Manager with reasonable cost estimates, including specific revenue accounts that is anticipated to pay for the debt service. This will allow an analysis of the project's potential impact on the City's debt capacity and limitations. The department director shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, anticipated to pay for such incremental costs.

i. Long-Term Debt. Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the City.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed will provide benefit to constituents over multiple years.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The City may use long-term debt financings subject to the following conditions:

- The project to be financed has been or will be approved by the City Council.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not cause the City to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
- The City estimates that sufficient income or revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable requirements of state and federal law.

- The City considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding may be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis, and are subject to City Council approval.

ii. Short-Term Debt. Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

Other types of short-term borrowings, such as commercial paper, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years.

Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

iii. Financings on Behalf of Other Entities. The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein. In no event will the City incur any liability or assume responsibility for payment of debt service on such debt.

B. Types of Debt

In order to maximize the financial options available to benefit the public, it is the policy of the City to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include but, are not limited to: street improvements, libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.

- Revenue Bonds: Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. An example of projects that would be financed by a Revenue Bond would be improvements to the water and wastewater enterprises, which would be paid back with rates and charges from the respective enterprises. Generally, no voter approval is required to issue this type of obligation but in some cases, the City must comply with proposition 218 regarding rate adjustments.

- Lease-Backed Debt/Certificates of Participation (COP): Issuance of Lease-backed debt is a commonly used form of debt that allows a City to finance projects where the debt service is secured via a lease, lease/purchase agreement or installment agreement.

- Special Assessment/Special District Debt: The City will consider requests from developers for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD) or more commonly known as Mello-Roos Districts. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the issuance of special district or special assessment debt, as well as any City's Special Assessment and Community Facilities District Financing Programs.

- Tax Allocation Bonds: Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes in the designated redevelopment area. Tax Allocation Bonds are not debt of the City. Due to changes in the law affecting California Redevelopment agencies with the passage of ABX1 26 (as amended, the Dissolution Act) as codified in the California Health and Safety Code, the City of Grover Beach Improvement Agency (RDA) was dissolved, and its operations substantially eliminated but for the continuation of certain enforceable RDA obligations to be administered by City as the Successor Agency. The Successor Agency may issue Tax Allocation Bonds to refinance outstanding obligations of the RDA, subject to limitations included in the Dissolution Act.

- Multi-Family Mortgage Revenue Bonds: The City is authorized to issue mortgage revenue bonds to finance the development, acquisition and rehabilitation of multi-family rental projects. The interest on the bonds can be exempt from Federal and State taxation. As a result, bonds provide below market financing for qualified rental projects.

In addition, the bonds issued can qualify projects for allocations of federal low-income housing tax credits, which can provide a significant portion of the funding necessary to develop affordable housing.

The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

To maintain a predictable debt service burden, the City will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The City may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The maximum amount of variable-rate debt should be limited to no more than 20 percent of the total debt portfolio.

C. Relationship Of Debt To Capital Improvement Program And Budget

The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes. The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related To Planning Goals And Objectives

The City is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual operating budget.

It is a policy goal of the City to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The City will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the City's investment policies as they relate to the investment of bond proceeds.

The City Manager or designee can recommend future changes to the Debt Management Policy as deemed necessary.

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